

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of:

**THE MANUFACTURERS LIFE
INSURANCE COMPANY (U.S.A.),
THE MANUFACTURERS LIFE
INSURANCE COMPANY OF NORTH
AMERICA, and THE MANUFACTURERS
LIFE INSURANCE COMPANY
OF AMERICA,**

Authorized Insurers.

No. D 02 - 12

CONSENT ORDER

STIPULATIONS

1. Market conduct examiners of the Washington State Office of Insurance Commissioner ("OIC") conducted a market conduct examination of Manufacturers Life Insurance Company of North America ("MNA") and a market conduct examination of The Manufacturers Life Insurance Company (U.S.A.) ("ManUSA") and The Manufacturers Life Insurance Company of America ("ManAmerica") for the period from January 1, 1992 to December 31, 1996. The companies are referred to collectively as the "Manulife Companies," and the examinations are referred to collectively as the "Examinations." The Examinations were limited to marketing and sales practices, complaint handling, and replacement activity.
2. On January 11, 2001, the OIC issued its Report of Target Market Conduct Examination of MNA (in Matter No. G 01-03) and its Report of Target Market Conduct Examination of ManUSA and ManAmerica (in Matter No. G 01-04). These reports are referred to collectively as the "Reports."
3. On January 24, 2001, the OIC issued its Findings, Conclusions, and Order Adopting Report (in Matter No. G 01-03), and its Findings, Conclusions, and Order Adopting Report (in Matter No. G 01-04) (the orders are referred to collectively as the "Orders"), in which the OIC ordered the Manulife Companies to comply with specific instructions contained in the Reports identifying instances during the period from January 1, 1992 to December 31, 1996 where the Manulife Companies had engaged in conduct in violation of provisions of title 48 RCW and title 284 WAC as set forth in stipulation Nos. 4 through 8.

4. The Manulife Companies did not comply with WAC 284-23-455(1) by failing to require signed statements from some selling agents as to whether they knew replacement of life insurance or annuities was or may have been involved in a transaction.
5. The Manulife Companies did not comply with WAC 284-23-450(2) by failing to require signed statements from some applicants for life insurance or annuities as to whether such life insurance or annuities would replace existing life insurance or annuities.
6. The Manulife Companies did not comply with WAC 283-23-455(2)(b) by failing to timely send to some existing insurers a written communication advising of a replacement or proposed replacement within three working days of the date the application was received in the Manulife Companies' offices or of the date the proposed policy or contract was issued.
7. ManUSA and ManAmerica did not comply with RCW 48.17.160(1) by failing to file with the OIC written notice of the appointment of some agents prior to allowing such agents to solicit business.
8. The Manulife Companies did not comply with WAC 284-23-455(2)(a)(ii) by failing to maintain a copy of some replacement notices provided to applicants.
9. Effective January 1, 2002, the Manulife Companies transferred the liabilities and assets under MNA and ManAmerica to ManUSA, the sole remaining company after the consolidation.
10. The Manulife Companies have cooperated with the OIC during the OIC's Examinations of the Manulife Companies, and have implemented or enhanced measures within the Manulife Companies to ensure compliance with the provisions of the Washington insurance code and Washington insurance regulations cited above and in the Orders. The Manulife Companies implemented some corrective measures prior to completion of the Examinations.
11. As evidence of the corrective actions taken by the Manulife Companies to ensure compliance with the Orders and with Washington law and regulations, the Manulife Companies prepared and submitted to the OIC its "Manulife USA Compliance Plan", attached hereto as Exhibit "A" and incorporated herein by reference.
12. RCW 48.05.185 authorizes the Insurance Commissioner to impose a fine in lieu of or in addition to the suspension or revocation of an insurer's certificate of authority. The OIC and the Manulife Companies desire to resolve and conclude all matters relating to the Examinations and Orders, and, accordingly, the OIC and the Manulife Companies have agreed that the Manulife Companies' submission of and compliance with the Manulife USA Compliance Plan and the Manulife Companies' full compliance with the requirements set

forth in this Consent Order shall constitute final resolution of the violations noted in the Orders and that the Examinations are concluded.

STIPULATION AND CONSENT TO ORDER

13. The Manulife Companies hereby stipulate to Nos. 1 through 12 above, acknowledge their obligation to comply with the applicable laws and regulations of the state of Washington and with the terms of the Manulife USA Compliance Plan, attached hereto as Exhibit "A," and consent to the entry of this Consent Order.
14. The Manulife Companies further stipulate that they know and understand the contents of this Consent Order, have been advised of their right to a hearing under the provisions of the Administrative Procedure Act, and have voluntarily waived their right to a formal hearing.
15. The Manulife Companies shall fully perform all of the terms set out in the Manulife USA Compliance Plan which is attached hereto as Exhibit "A."
16. The Manulife Companies shall not violate any of the statutes or regulations that are the subject of this Consent Order for a period of twelve months from the date this Consent Order is entered.

EXECUTED and AGREED, this 20th day of September, 2002.

MANUFACTURERS LIFE INSURANCE
COMPANY OF NORTH AMERICA,
THE MANUFACTURERS LIFE
INSURANCE COMPANY (U.S.A.), and
THE MANUFACTURERS LIFE
INSURANCE COMPANY OF AMERICA

By: _____

Typed Name: _____

Title: _____

ORDER

Pursuant to RCW 48.02.060, 48.05.140 and 48.05.185, and in conformity with the Manulife Companies' agreement, the Insurance Commissioner hereby ORDERS The Manufacturers Life Insurance Company of North America, The Manufacturers Life Insurance Company of America and The Manufacturers Life Insurance Company (U.S.A.) to fully perform the terms of the Manulife USA Compliance Plan attached hereto, marked as Exhibit "A," and incorporated herein by reference, and to commit no violations of the statutes or regulations that are the subject of this Consent Order for a period of twelve months from the date on which this Order is entered. The OIC shall not take action against the Manulife Companies should they commit isolated, de minimis violations of the statutes or regulations that are the subject of this Consent Order during the said twelve-month period, as determined by the OIC, provided that the Manulife Companies rectify such violations promptly once they are discovered.

It is FURTHER ORDERED that if The Manufacturers Life Insurance Company of North America, The Manufacturers Life Insurance Company of America or The Manufacturers Life Insurance Company (U.S.A.) fail to comply with this Order, the OIC may institute disciplinary action against The Manufacturers Life Insurance Company (U.S.A.) as provided by RCW 48.05.140(1) for violation of an order issued by the Insurance Commissioner or as otherwise provided by law.

ENTERED AT TUMWATER, WASHINGTON, this 2nd day of October, 2002.

MIKE KREIDLER
Insurance Commissioner

By

JOHN F. HAMJE
Legal Affairs Division

MANULIFE USA COMPLIANCE PLAN

The following “Compliance Plan” outlines the procedures currently in place in Manulife USA Individual Life and US Individual Annuity product line areas to which the following WA instructions and recommendations apply. The “Compliance Plan” identifies personnel, by position, responsible for assuring compliance. To complement this compliance plan, the Manulife Compliance Management Program entrusts to the U.S. Chief Compliance Officer, direct responsibility for overseeing the compliance efforts of Manulife U.S. Division, including the procedures detailed in this compliance plan. The Chief Compliance Officer and his Compliance Management Unit, work in conjunction with Business Unit Compliance Officers (“BUCOs”) throughout the division to ensure regulatory obligations are met. The Internal Audit Service Department at Manulife Financial conducts key risk audits of the company’s operations on a 3 year cycle. These audits are supplemented by key risk reviews during the 2 years between.

WA INSTRUCTIONS

1. WA Instruction (Annuity G01-03 and Life G01-04): The Companies are in violation of WAC 284-23-060(1) and are instructed to make certain that its full name and home office are clearly identified on all advertisements.

Manulife USA Response: Manulife LISA has enhanced its procedures and they have been communicated to employees to ensure the name of the Company and home office address are included on sales and marketing materials. All sales and marketing materials are now subject to a “Review” process as follows:

- *A Review Manager forwards all sales and marketing material to business unit technical experts for comments.*
- *A review by the Compliance Manager (Life Products) and the Product Compliance Attorney (Annuity Products) is included in the process.*
- *Comments and recommended changes are returned to the Review Manager who ensures that the material is revised before release.*

2. WA Instruction (Life G01-04 only): The Companies are in violation of RCW 48.17.010 and are instructed to make certain all agents are licensed and appointed by the Company with the State of Washington prior to soliciting applications on behalf of the Company.

Manulife USA Response - Life Products: Manulife USA procedures have been enhanced and communicated to employees to ensure agents are duly licensed by the state and appointed by Manulife USA prior to the acceptance of any new applications of insurance as required under applicable state laws. Manulife USA's regional offices provide solicitation support to individual agents only if they are appropriately licensed and appointed. As a result, only agents who are licensed and appointed by Manulife USA for the state of WA, receive marketing material and policy illustrations. Manulife USA conducts its sales through a non-captive agency force that includes independent

agents and other sales intermediaries. On receipt of their contractual agreement, agents and brokers are reminded of their license and appointment obligations. They receive Manulife USA's Agent Code of Conduct and an Agent Self Assessment Guide. Periodic newsletters on the subject of state license and appointment compliance requirements are distributed to agents and brokers as well. The compliance process for assuring agents are licensed and appointed prior to soliciting applications on behalf of Manulife USA includes the following action steps:

- All new business applications submitted to the Company are reviewed by assigned New Business Case Managers.*
- Before processing a new business application the New Business Case Manager is required to cross reference the Agency System to verify that the writing agent is appropriately licensed and appointed.*
- If an active license and appointment with Manulife USA for WA is verified, the New Business Case Manager will begin processing the new business application.*
- In the event an agent's license and/or appointment cannot be verified on the Agency System, the New Business Case Manager will not process the application which will be rejected and returned to the agent.*
- The agent will be instructed of WA's licensing and/or appointment requirements and asked to complete and sign a new application with the customer, only after licensing and Manulife USA appointment for WA business takes place.*

3. WA Instruction (Annuity G01-03 and Life G01-04): The Companies are in violation of WAC 284-23-450(2) and are instructed to "Require with or as part of each application for life insurance or annuity a statement signed by the applicant as to whether such proposed insurance or annuity will replace existing life insurance or annuity."

4. WA Instruction (Annuity G01-03 and Life G01-04): The Companies are in violation of WAC 284-23-455(1) and are instructed to "Require with or as part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction."

Manulife USA Response to 3 and 4: Manulife USA replacement procedures have been enhanced and communicated to employees to ensure state requirements are met. To keep abreast of regulatory changes, BUCOs in the Replacement Unit (Life Products) and Annuity Service Department (Annuity Products) have access to external compliance services through which they are notified of new and revised laws and regulations, including those on replacements. BUCOs ensure procedures are amended to incorporate any new requirements which are communicated to employees to ensure compliance. Manulife USA conducts its sales through a non-captive agency force that includes independent agents and other sales intermediaries. On receipt of an appointment package, agents and brokers are reminded of their regulatory obligations and Manulife USA's policies on critical compliance subjects such as licensing, appointments and replacement. This is done by including in the appointment package, Manulife USA's contractual agreement, an Agent Code of Conduct and an Agent Self

Assessment Guide. Periodic newsletters with articles on these subjects are also distributed regularly to agents and brokers. Manulife USA's replacement policy is communicated to agents in these documents wherein they are instructed in part "...you must indicate on every application for new coverage whenever a replacement is involved in that sale."

Manulife, USA application forms in the State of WA contain the appropriate statement to be signed by the applicant as to whether the proposed life insurance or annuity contract will replace existing coverage. The application forms also contain a statement to be signed by the agent as to whether he or she knows replacement is involved in the sale. Incoming applications are monitored internally to verify that the applicant and agent have completed the required statements as to whether replacement is involved in the sale and, if necessary, the agent is contacted to resolve any incomplete statements. The process for ensuring compliance includes the following action steps:

- On receipt of a new application, the New Business Case Manager (Life Products) or the Annuity Service Representative (Annuity Products) checks the application to verify that the required questions have been answered.*
- If the required information is not completed on an annuity application, the case is rejected and must be resubmitted in good order.*
- If the required information is not completed on a life insurance application, the case is suspended and the agent is contacted and asked to obtain the required information.*
- When the New Business Case Manager (Life Products) or the Annuity Service Representative (Annuity Products) receives the required information the new business application is processed.*
- If the application is a replacement, this information is entered on the applicable systems and the Replacement Administrator (Life Products) or the Annuity Service Representative (Annuity Products) begins the replacement application process.*
- Amendments made to the life application are provided to the applicant and agent for the applicable signature at the policy delivery.*

5. WA Instruction (Annuity G01-03 and Life G01-04): The Companies are in violation of WAC 284-23-455(3) and are instructed to change their procedures to make certain all replacement business is entered on the Companies' replacement register including the name of the existing insurer to be replaced.

Manulife USA Response: Manulife USA has enhanced its computer systems to capture all relevant information on the replacement register. Relevant information is entered into the Replacement Database (Life Products) or the Administration System (Annuity Products) by New Business Case Managers and Annuity Service Representatives, respectively, during the new business process. The replacement register is automatically populated through an interface with these systems. When required, reports are generated from the replacement register by the Replacement Administrator (Life Products) and the Compliance Consultant (Annuity Products).

6. WA Instruction (Annuity G01-03 and Life G01-04): The Companies are in violation of WAC 284-23-455(2)(a)(ii) and are instructed to "Require ... a copy of the replacement notice provided the applicant pursuant to WAC 284-23-440(2)(a).

Manulife USA Response: In a replacement situation, Manulife USA requires the agent or broker to submit a copy of the replacement notice along with the application. These applications are forwarded to the Replacement Unit (Life Products) or the Annuity Service Department (Annuity Products) for processing. Employees are required to verify that a copy of the replacement notice is received with the application. The process for ensuring compliance includes the following action steps:

- ***Upon receipt of a replacement application, the Replacement Administrator (Life Products) or the Annuity Service Representative (Annuity Products) checks the submission to ensure the replacement notice is included with the submission and that it was completed and signed by the applicant and the agent.***
- ***If the replacement notice is received and completed, the Replacement Administrator (Life Products) or the Annuity Service Representative (Annuity Products) will continue with the application process.***

7. WA Instruction (Life G01-04 only): The Companies are in violation of WAC 284-23-455(2)(b) and are instructed to change their procedures such that "written communication [to the existing Company] shall be made within three working days of the date the application is received in the replacing insurer's home or regional office..."

8. WA Instruction (Annuity GO 1-03 and Life GO 1-04): The Companies are in violation of WAC 284-23-455(2)(b) and are instructed to "Send to each existing insurer a written communication advising of the replacement or proposed replacement. . .".

Manulife USA Response to 7 & 8: Within 3 working days from receipt of a complete replacement application, the Replacement Administrator (Life Products) or the Annuity Services Representative (Annuity Products) notifies the existing insurer of the proposed replacement by a formal notification letter, together with a copy of the replacement notice and other documents required under the regulation.

9. WA Instruction (Life G01-04 only): The Companies are in violation of WAC 284-23-440(2)(a) and are instructed to make certain that the notice is completed no later than at the time the application is taken.

Manulife USA Response - Life Products: The New Business Case Managers and Replacement Administrators have been trained to monitor applications closely to ensure the replacement notice and application are executed at the same time. The application process has been enhanced for agents and brokers to use Manulife USA's form ordering system to request an Application Kit which contains a checklist of items required for submission on a state specific basis. WA application kit contains the replacement notice NB3511 US on which specific execution instructions are detailed for the agent and the applicant.

WA RECOMMENDATIONS

1. WA Recommendation (Life GO 1-04 only): It is recommended that the Companies establish a practice of clearly date stamping the application when it is received in the home office.

Manulife USA Response - Life Products: Manulife USA has enhanced their date stamping process to ensure all incoming applications and accompanying documents are clearly date stamped. Upon receipt of an application, the Image Scandexer uses a dark ink stamp, to affix the date the application was received and ensure it is legible. The Scandexer also scans the paper application into an imaging system, which also captures the date.

2. WA Recommendation (Life GO 1-04 only): It is recommended that the Companies monitor its replacement registers for any trends or patterns of replacement by an agent or agency.

Manulife USA Response - Life Products: Manulife USA (Life Products) has utilized for some time the Replacement Database and monitoring procedures. Using the Replacement Database and register, reports are generated quarterly to determine, analyze and investigate trends or patterns on replacement activity. Reports provide activity information such as the agent's total new business policy count and production credit, total replacement activity and production credit and the ratio of replacement business to new business. When reports are generated the following monitoring process takes place:

- ***The Replacement Administrator analyzes the ratios based on industry accepted totals and trends over a two-year calendar basis.***
- ***If the replacement ratio is higher than the acceptable range or if there is a high increase in the agent's ratio an in-depth review is performed and the situation is referred to the Customer Service Manager***
- ***The Customer Service Manager evaluates the case and if unable to resolve, will address concerns with the A VP, Compliance, Individual Life***
- ***When concerns are present the A VP, Compliance and the Customer Service Manager will contact the Regional Director and recommend a course of action for the agent.***
- ***Depending on the circumstances and history, the agent may be disciplined including the termination of his appointment.***

3. WA Recommendation (Annuity GO 1-03 only): It is recommended that the Company establish formal written procedures for disciplining agents and that written documentation be maintained of any actions taken.

Manulife USA response - Annuity Products: Manulife USA sells its Annuity Products exclusively through third party broker-dealers. The following are the disciplinary protocols and procedures that are currently in place to handle agent and broker disciplinary actions.

- *Any suspected agent misconduct is reviewed initially with the Business Unit Manager.*
- *If the matter cannot be resolved it is referred to the US Law Department for further review.*
- *The agent's broker/ dealer is also notified of the matter and it is required to review and provide Manulife USA with a report of its review.*
- *If the review indicates any inappropriate agent actions, Manulife USA will make a determination as to whether a sanction is required. Sanction can include termination.*
- *The agent's immediate employer, the broker-dealer, is notified of Manulife USA's action.*